

## Chapter 3

Ministry of Training, Colleges and Universities

### Section 3.10

# Ontario Student Assistance Program

## 1.0 Summary

The Ontario Student Assistance Program (OSAP) provides financial aid in the form of grants and loans to students who pursue a post-secondary education, usually at a university, college or private career college. Eligibility is open to Ontarians who are Canadian citizens, permanent residents, or “protected persons” (for example, those with formal refugee status).

The amount of aid depends primarily on educational costs and family income and size, and to a certain extent on the student’s own assets. The program is administered by the Ministry of Training, Colleges and Universities (Ministry).

The Ministry introduced major changes to OSAP in the 2017/18 academic year starting August 1, 2017, to make post-secondary education more accessible and affordable for students from low- and middle-income families. The changes are making the program more affordable by providing a larger percentage of financial aid in the form of non-repayable grants rather than repayable loans—98% in grants in the 2017/18 academic year, compared to 60% the year before.

However, although more people are getting financial aid—24% more university recipients and 27% more college recipients—more people are not necessarily accessing post-secondary education. We

noted that the increase in enrolment is only 1% for universities and 2% for colleges, indicating that the number of people accessing higher education is not commensurate with the additional OSAP funding.

Furthermore, the changes were expected to have a positive impact on the Province’s finances, as the additional revenue from the elimination of Ontario’s Tuition and Education Tax Credits was expected to more than offset any increased costs of the changes to OSAP. However, the uptake of financial aid to date (in the form of grants) has exceeded expectations, resulting in the Province’s latest budget projecting that OSAP could cost \$2 billion annually by the 2020/21 fiscal year, a net increase of 50% from the 2016/17 fiscal year.

The changes to OSAP will result in fewer defaulted loans and related collection issues because most of the aid now is in the form of grants rather than repayable loans. Current changes to repayment rules should also reduce the amount of grant overpayments that go unrecovered beginning in the 2017/18 academic year.

Among the issues we identified in our audit:

- The Ministry tracks limited data about OSAP recipients and so cannot determine whether the latest changes actually helped improve access to post-secondary education. However, the fact that 27% of mature students already attending post-secondary institutions last year only qualified for grants in the 2017/18 academic year helps explain to some extent

why the higher number of recipients is not reflected in the more modest increase in post-secondary enrolments.

- Parental income is taken into consideration when determining OSAP eligibility for students who have been out of high school for less than four years and are financially dependent on their parents—but not for those who have been out for four years or more. We noted that the number of students who had been out of high school for at least four years and who received OSAP increased 33% from the 2016/17 to 2017/18 academic years, and that close to 30% of them said on their applications that they were living with their parents. The Ministry did not know whether the students actually needed OSAP support.
- The Ministry does not verify the size of dependent students' families and the value of financial assets of a student (and spouse, if applicable) declared by applicants, even though this data affects the amount of financial aid. There is a risk that students may be reporting inaccurate or false information to receive more aid than they are entitled to.
- Improvement is needed in the Ministry's oversight of Financial Aid Offices, which process 92% of OSAP applications on the Ministry's behalf at some post-secondary institutions. We had concerns with the number of student files examined during Ministry inspections—10 student files for private institutions and 20 files for public institutions, regardless of the number of OSAP recipients at the institution. We also noted problems with Ministry processes for tracking and recording deficiencies during inspections, communicating results of inspections to the Offices, and with follow-ups to ensure corrective actions are taken where required.
- Prior to the changes, grant recipients who withdrew from their studies did not have to repay their grants, which cost OSAP \$74.4 million from the 2013/14 to 2016/17 academic years. This included about \$14.5 million issued after students had already left their studies, as the Ministry system had not been updated by Financial Aid Offices to reflect the withdrawal in a timely way. Starting August 1, 2017, recipients were required to repay the full amount of a grant if they withdrew within 30 days of starting school, or a prorated amount after 30 days. Although the Ministry has taken steps to address weaknesses in forgiveness of grant overpayments, we found instances after the program changes where students received OSAP grants *after* they had withdrawn. However, in this case they will be converted to loans on a prorated basis.
- Loans are considered in arrears after 90 days but effective collection efforts generally do not begin until loans are nine months in arrears. About \$69 million in defaulted student loans have been transferred to the Ministry of Finance for collection in each of the last five years. The two most effective ways to recover defaulted loans are to engage private collection agencies and to garnish income-tax refunds through the Canada Revenue Agency. Collection agencies are usually used first. However, they charge a 16% commission on what they recover—about \$20 million over the last five years—while Canada Revenue charges about 1%.
- Private post-secondary institutions had the highest overall loan-default rates, followed by public colleges and public universities. The Ministry operates a cost-sharing program with private institutions for loans in default, but in the two latest years collected only \$417,000 from the institutions on defaults worth a total of \$14 million.

## Overall Conclusion

We found the Ministry, for the most part, has procedures in place to ensure that financial aid is provided to eligible applicants, and that the amount and type of support provided is accurately determined, although we noted one exception: we found cases where OSAP payments were made to students after they had withdrawn from their studies.

We also noted an increase in enrolment of only 1% for universities and 2% for colleges, even though the number of OSAP grant recipients rose by about 25%, meaning that a large portion of OSAP recipients were already attending college or university.

In addition, not all loans are promptly collected after they become due. On an annual basis, about \$69 million in loans go into default, but collection efforts that yield significant results do not begin until nine months later. Furthermore, we noted that program effectiveness is not measured and publicly reported. In addition, improvements are needed in Ministry oversight of Financial Aid Offices operating out of some campuses.

This report contains 14 recommendations, consisting of 27 actions, to address our audit findings.

### OVERALL MINISTRY RESPONSE

The Ministry of Training, Colleges and Universities (Ministry) appreciates the work of the Auditor General and the co-operative nature of her staff in reviewing the Ontario Student Assistance Program (OSAP). We feel the observations provided in the audit are fair and we look forward to implementing the recommendations. While OSAP has already undergone a significant transformation, which has resulted in a number of client service improvements, we are committed to making further improvements to the program.

The Ministry will continue its ongoing review of OSAP with the new government and will include the recommendations provided by the Auditor General. The Ministry is committed to:

- better tracking student outcomes and making the data publicly available;
- reviewing OSAP policy and operational processes to ensure funding is focused on those with the greatest financial need while protecting student privacy;
- improving our compliance processes and oversight of Financial Aid Offices, public institutions and private career colleges, as well as improving processes around student investigations;
- implementing a systemic approach for reviewing incoming complaints about OSAP to better complement processes that are already in place; and
- implementing enhanced loan collection processes in conjunction with the federal government and the Ministry of Finance.

We thank the Auditor General for her recommendations and look forward to using this feedback to continue building an improved OSAP.

## 2.0 Background

### 2.1 Overview

The Ontario Student Assistance Program (OSAP) is a financial-aid program that helps eligible students pay for post-secondary studies. Aid is offered in the form of grants, which are not repayable, and loans, which are.

The Student Financial Assistance Branch of the Ministry of Training, Colleges and Universities (Ministry) administers OSAP with a staff of almost 100. In 2017/18, the program cost \$22.3 million to administer.

OSAP is an entitlement program, meaning no cap is set on the number of students who qualify for funding. All eligible students who apply for aid, get aid. Funding is disbursed on an annual basis, which means students in multi-year programs must reapply each year for aid.

In the 2017/18 academic year, which ended July 31, 2018, about 441,000 Ontario students received a total of \$1.7 billion in OSAP funding, almost 98% of it in non-repayable grants, and the remaining 2% in loans. In the previous academic year, 360,000 students received a total of \$1.4 billion in OSAP funding, about 60% of it in grants and 40% in loans. The rise in the number of recipients, and the change in the composition of financial aid, were due to changes to OSAP that took effect primarily in the 2017/18 academic year.

Assistance is available only to Ontarians attending publicly funded colleges and universities anywhere in Canada, or private post-secondary institutions (that is, private career colleges) only in Ontario. Federal assistance is available to Ontarians attending public or private post-secondary institutions worldwide.

Most OSAP recipients are full-time students who attend a publicly funded college or university in Ontario. In the 2017/18 academic year, 91% of recipients were enrolled in publicly funded universities and colleges in Ontario. At the time of our audit, there were 533 institutions whose students were OSAP recipients:

- 25 publicly funded universities in Ontario;
- 30 publicly funded colleges in Ontario;
- 289 publicly funded Canadian universities and colleges outside Ontario; and
- 189 private institutions (also known as private career colleges) in Ontario.

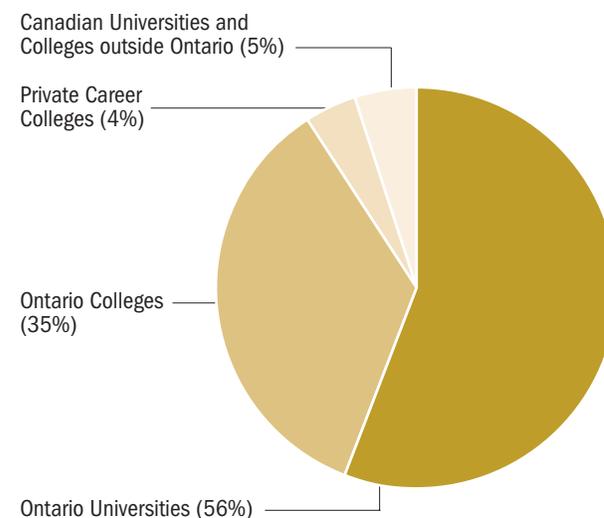
See **Figure 1** for a breakdown of OSAP recipients by institution.

Fifty-five percent of recipients are “dependent,” meaning they rely on family support, and 43% are mature. **Figure 2** provides a breakdown of recipients by income level.

In 2016/17, the Province administered 20 financial aid programs. But in 2017, the Ministry reduced the number of programs to 14—six Ontario grants, six Canada grants, one Canada loan for part-time studies, and the combined Canada-Ontario loan. We describe recent changes to OSAP in **Section 2.2**. See also **Appendix 1** for a list of available grants and loans.

**Figure 1: OSAP Recipients by Post-secondary Institution for the 2017/18 Academic Year, as of April 2018**

Source of data: Ministry of Training, Colleges and Universities



**Figure 2: OSAP Recipients and Total Provincial Aid by Income Level for the 2017/18 Academic Year, as of April 2018**

Source of data: Ministry of Training, Colleges and Universities

Income Level	% of Recipients	Total Grants (\$ million)	Total Loans (\$ million)
Low <sup>1</sup>	60	1,225	0.7
Medium <sup>2</sup>	19	247	27.0
High <sup>3</sup>	21	139	9.0
<b>Total</b>	<b>100</b>	<b>1,611</b>	<b>36.7</b>

1. Low Income: Independent or mature students <\$30,000 per year; dependent students <\$50,000 per year.
2. Medium Income: Independent or mature students \$30,000 to <\$70,000 per year; dependent students \$50,000 to <\$90,000 per year.
3. High Income: Independent or mature students ≥\$70,000 per year; dependent students ≥\$90,000 per year.

In addition to administering provincially funded grants and loans under OSAP, the Ministry also administers grants and loans to Ontario students funded by the federal government through the Canada Student Loans Program. In 2017/18, Ontario received \$16.3 million from the federal government for administering financial aid applications and assessing Ontario applicants for federal aid.

Students generally need to complete only one application to be considered for all available grants and loans from Ontario and the federal government. Assessments for both federal and provincial funding are completed simultaneously, and any change a student makes to their application will automatically affect both assessments.

When a loan becomes repayable, the student makes a single regular payment, which is applied against both the Ontario and Canada portions of the integrated loan. A separate application is required for certain specialty grants for disabled students, deaf students and part-time students (see **Appendix 1**), but these represent less than 1% of total assistance.

### 2.1.1 Eligibility and Aid Amounts

OSAP is available to Ontario residents of any age who are Canadian citizens, permanent residents, or “protected persons” (for example, those with formal refugee status). Students can qualify for a grant, loan, or both.

The student and his or her family are expected to contribute toward the cost of a post-secondary education, so OSAP is generally not available to those with adequate financial resources.

OSAP is a needs-based program, meaning that financial aid is calculated using a formula to determine need by balancing allowable education costs against a student’s expected financial contributions. Factors affecting need include:

- **The student’s dependency status**—for example, whether the student is single and dependent on one or two parents; single and independent; married or in a common law relationship; or is a single parent.
- **The student’s allowable education costs during the study period**—such as tuition and compulsory charges (for example, lab fees), monthly living allowance (depending on the student’s dependency status), and cost of books, supplies, equipment and computers.

- **The student’s available financial resources**—based on the student’s dependency status. Where a student is a dependent, financial resources include the parents’ prior-year income and the student’s current-year income (if it exceeds \$5,600 per term). Where the student is independent, financial resources include the student’s income in the prior year and current year (if they exceed \$5,600 per term), their spouse’s prior-year income, and financial assets held by the student and spouse (if applicable), including bank accounts, RRSPs, and investments. In addition, regardless of the student’s dependency status, each student is required to cover \$3,000 of their education costs per year, with the exception of students with children, students on social assistance and Indigenous students.

The proportion of financial assistance provided through a grant rather than a loan depends on the number of people in the student’s family and family income.

Aid is not available to those who have defaulted on a previous student loan, declared bankruptcy, failed a credit check or have already reached the maximum limit for student financial aid.

Eligibility for the Canada grants and loans is determined first, because the amount of assistance provided under the federal program is factored into the Ontario assessment as an expected contribution or resource available to the applicant.

### 2.1.2 Roles and Responsibilities of Parties Involved

Several parties are involved in administering financial aid to Ontario students. They are:

- The Ministry of Training, Colleges and Universities (Ministry), which develops policy for student loans and grants; determines which institutions and educational programs are eligible for OSAP; funds the Ontario portion of aid; and assesses student applications and determines entitlements on behalf of Canada

and the Province. The Ministry also inspects educational institutions' Financial Aid Offices, and investigates potential abuses brought to its attention.

- The Ministry of Finance is responsible for the collection of student loans in default.
- College and university application centres allow students to register for OSAP at the same time they apply to colleges or universities.
- The Financial Aid Offices of public colleges and universities process and manage OSAP files for their own students on behalf of the Ministry.
- The National Student Loans Service Centre is a private service-provider contracted by the federal government to administer the disbursement and repayment of student financial assistance programs for five provinces: Ontario, British Columbia, Saskatchewan, New Brunswick and Newfoundland. In 2017/18, the Province paid the federal government \$6.2 million for services rendered by the National Student Loans Service Centre.

### 2.1.3 Application Processing and Disbursement of Funds

Various entities are responsible for processing OSAP applications, depending on the educational institution, as follows:

- Financial Aid Offices at post-secondary institutions process all applications for students at public colleges and universities (92% of all applications in 2017/18).
- Career Colleges Ontario, a not-for-profit association representing private career colleges, processes applications to its member colleges (3% of applications in 2017/18).
- Ministry staff process applications for private career colleges not handled by Career Colleges Ontario, for all other private degree-granting institutions in Ontario, and for all

other institutions outside Ontario (5% of applications in 2017/18).

Information that applicants must provide is detailed in **Appendix 2**.

Once the assessment is completed and the Ministry receives confirmation from the institution that the student is enrolled in a program of study, the OSAP system issues a file to the National Student Loans Service Centre containing student information and the amounts of grants and/or loans from both the federal and provincial governments.

Each student is required to sign a Master Student Financial Assistance Agreement, which usually has to be completed only once during a student's post-secondary studies. A new agreement is required when the student has a two-year break in studies.

The agreement contains the terms and conditions for the OSAP grant and/or loan, along with banking information for the electronic transfer of funds to the student's bank account. It does not contain information on the amount of financial assistance to be provided, as this will change over the course of the agreement.

Recipients sign their agreement in person with proper ID at a designated Canada Post outlet, which then sends the agreement to the National Student Loans Service Centre for processing.

Upon receipt of money from one or both governments and a signed agreement from the student, the National Student Loans Service Centre disburses the funds to the student.

### 2.1.4 Loan Repayment

Loans are interest-free during the period of study. Interest begins to accrue on the federal portion of the loan immediately upon completion of studies, and on the Ontario portion six months after completion.

Students are required to fully repay both the federal and Ontario portions of the loan within 10 years of either completion of or withdrawal from studies.

When a student officially completes full-time studies, they receive a repayment package from the National Student Loans Service Centre that outlines the amount owed, the amount of the monthly payment required and repayment options. Interest charges begin to accrue six months after completion of studies. Before interest begins to accrue, students are allowed to make lump-sum payments to lower or eliminate the outstanding loan principal. In the 2017/18 fiscal year, 98,000 loans, totalling \$544 million, became repayable. Of these, almost 6,000 loans totalling \$26.1 million were repaid in full prior to the end of the six-month interest-free period. A further 26,000 students partially repaid \$39.1 million of their outstanding loans during the six-month interest-free period.

If a student has difficulty repaying a loan, they can contact the National Student Loans Service Centre to request an extension through the Repayment Assistance Plan (Plan), designed to provide temporary debt relief. The Plan first extends the interest-free period, and then covers some of the principal repayment. A borrower can be in the Plan for up to 15 years, but has to reapply and be assessed every six months.

**Figure 3** provides a comparison of repayment terms and interest rates of selected provinces and

the federal government. Repayment terms for student loans in Ontario are comparable to other jurisdictions, as is the interest rate charged.

The Ministry told us that it charges a lower rate than the federal government in order to more closely align with the rate it pays on its loans from the Ontario Financing Authority, which borrows on behalf of the Province. At the time of our audit, the Authority charged the Ministry 3.63%, while the Ministry charged students 4.7% (prime of 3.7% plus 1%). The Ministry informed us that it does not charge interest for the first six months following completion of studies to give graduates time to find employment in their field.

About 35% of OSAP recipients use the Repayment Assistance Plan within the first two years of repayment. The Plan can extend their loan repayment period from 9½ years to 14½ years, and forgives interest payments for the first five years instead of just the first six months after completion of studies. In the last three calendar years, the Plan has forgiven a total of \$58.8 million in interest and \$26.8 million in loan principal.

**Figure 3: Interest Rates and Repayment Processes in Selected Jurisdictions as of March 31, 2018**

Source of data: Applicable provincial ministries and student financial assistance websites

Province	Interest Rate (%)	When Interest Starts to Accrue	Years to Full Repayment (including any grace period)	Years to Full Repayment under Repayment Assistance Plan
Canada	Prime + 2.5	On completion of studies	10	15
New Brunswick	Prime + 2.5	On completion of studies	10	15
<b>Ontario</b>	<b>Prime + 1</b>	<b>6 months after completion of studies</b>	<b>10</b>	<b>15</b>
Alberta	Prime	6 months after completion of studies	3–10 years, depending on size of loan	15
British Columbia	Prime	On completion of studies	10	15
Saskatchewan	Prime	On completion of studies	10	15
Nova Scotia	0	n/a	10	15
Manitoba	0	n/a	10	15

Note: All provinces above allow a six-month grace period before start of repayment.

## 2.2 Recent Changes to OSAP

In the 2016 Ontario Budget, the government announced plans to transform student financial assistance to make post-secondary education more accessible and affordable.

The need for change had been previously identified in a 2012 report by the Drummond Commission, which noted that student financial assistance was not focused on lower-income students, even though they likely needed it most.

The Commission further said that the combined impact of all existing assistance, including, for example, loans, grants and tax credits, provided roughly the same aid for the lowest-income students as for the highest-income ones.

The Commission recommended that the government change OSAP to target more of the assistance to low-income students, and to broaden its approach to generally improving access to post-secondary education. It also recommended that the Province assess whether to phase out provincial tuition and education tax credits in favour of upfront grants.

Also, based on 2015 data the Ministry obtained from Statistics Canada, students from lower income families participate in post-secondary education at a lower rate than those from higher income families. This data also revealed that Ontario's participation rates in post-secondary education were about 10% higher than the rest of Canada at all family income levels.

One new measure was the creation of a single major upfront grant, called the Ontario Student Grant. Another was the restriction of a student's maximum educational debt to \$5,000 per academic term, starting in the 2017/18 academic year.

The new Ontario Student Grant stipulates that:

- Students from families with incomes under \$50,000 will face no provincial student debt at all after their studies, because all assistance would be in the form of non-repayable grants.
- More than 50% of students from families with incomes of \$83,000 or less will receive

non-repayable grants that will exceed average college or university tuition.

- All students will be the same or better off as under the previous Ontario Tuition Grant.

The areas of major program redesign, beginning with the 2017/18 academic year, are described below:

1. *Financial support provided upfront, and loan forgiveness grants and tax credits eliminated*—Previously, aid was distributed in instalments at the start of each academic term, and students could receive loan forgiveness through the Ontario Student Opportunity Grant, which reduced a full-time student's repayable loan to a maximum of \$7,500 for a two-term program or \$11,250 for a three-term program. In addition, the student or their parent could claim the Tuition and Education Tax Credit for tuition paid in the calendar year. As of 2017/18, the full amount of financial aid is provided at the beginning of the academic term, and loan forgiveness through the Ontario Student Opportunity Grant no longer exists. As well, the tax credits were eliminated as of September 2017.
2. *Existing OSAP assistance programs consolidated*—Multiple Ontario grants were consolidated into a single new grant called the Ontario Student Grant. For a list of the consolidated grants, see **Appendix 3**.
3. *Eligibility based on household income thresholds*—Eligibility criteria for grants and loans now recognize size and income of a family. Students in families with household income less than \$50,000 (or single independent students with less than \$30,000 in income), for example, would get all of their aid in the form of a grant and so would have no debt. Previously, only one grant took into consideration both family size and income threshold.
4. *Expanded support for mature students*—All types of grants were made available to mature students, defined as those who have been out of high school for at least four years,

whereas prior to 2017, only a few of the grant programs were available to mature students.

5. *Policy harmonization between Canada and Ontario*—In order to simplify the assessment process, Canada and Ontario both made changes in relation to the financial contribution expected from students applying for aid as follows:
  - Ontario introduced a fixed student contribution amount of \$3,000 per academic year—the amount that all students are expected to contribute for each year of post-secondary studies and which is deducted from any OSAP support—to replace the previous calculation based on a student’s income. Ontario exempted all income below \$5,600 a term earned by a student while in school.
  - In 2017/18, the federal government introduced fixed contribution and income exemptions for other income earned during studies.
6. *Enhanced student experience*—The OSAP website includes a calculator that helps students estimate how much funding they may qualify for. As well, the OSAP application process has been integrated with university and college application processes so that students are automatically prompted to register with OSAP when they apply to a school.

To illustrate the impact of the program changes on student assistance, **Figure 4** shows how the amount and composition of provincial financial aid differs under the old and new method of determining OSAP for various student scenarios. The scenarios show that dependent students from families making less than \$50,000, whether they lived at home or not during their study period, received aid in the form of both grants and loans before the changes, and entirely as grants after the changes. The scenario for a low-income mature student, whether living with their parents or not, shows that prior to the changes, provincial aid was entirely in the form of loans, whereas after the change, provin-

cial aid was entirely in the form of grants and total aid increased substantially.

## 2.3 Ministry Oversight Practices

The Ministry’s oversight activities involve the inspection of Financial Aid Offices (Offices) at both public and private institutions and the investigation of student files. Both activities are conducted by the Ministry’s Investigation and Compliance Unit, composed of seven compliance officers who conduct institution inspections and student investigations.

Inspections of Offices seek to determine whether their processes and controls comply with applicable legislation and Ministry policy in administering OSAP. Inspections are to be conducted at least once every three years at Offices in public institutions, and at least once every two at Offices in private institutions.

Inspections of Financial Aid Offices consist of institutional-level assessments such as documentation indicating who is authorized to access the OSAP system, and student-level assessments such as maintaining records to demonstrate students’ enrolment and academic progress in their programs of study.

Investigations of students are conducted to determine whether borrowers are still eligible for OSAP, have acted fraudulently or have abused the system. Investigations are triggered when an issue or situation is brought to the Ministry’s attention, typically by an Office, or when irregularities in a student’s file are noted by Ministry staff. Examples of issues that may trigger investigations include providing false information about income, failing to provide required documents, claiming bankruptcy or a change in provincial residency status.

There were 2,036 student investigations between the 2012/13 and 2016/17 fiscal years, and 11% of the students investigated were eventually restricted from any future OSAP aid.

**Figure 4: Effect of Program Changes on Student Financial Aid, 2016/17 –2017/18 Academic Years**

Source of data: Ministry of Training, Colleges and Universities

Type of Student Aid	Student Scenario 1 <sup>1</sup>		Student Scenario 2 <sup>1</sup>		Student Scenario 3 <sup>1</sup>		Student Scenario 4 <sup>1</sup>		Student Scenario 5 <sup>2</sup>	
	(\$)	% of Total Aid								
<b>2016/17 Academic Year</b>										
Provincial										
Grant	2,778	83	2,778	38	1,900	100	1,900	56	0	0
Loan	564	17	4,562	62	0	0	1,496	44	3,941	100
<b>Total</b>	<b>3,342</b>	<b>100</b>	<b>7,340</b>	<b>100</b>	<b>1,900</b>	<b>100</b>	<b>3,396</b>	<b>100</b>	<b>3,941</b>	<b>100</b>
Federal										
<b>Total</b>	<b>6,901</b>		<b>8,340</b>		<b>6,671</b>		<b>7,140</b>		<b>10,920</b>	
<b>Total for 2016/17 Academic Year</b>	<b>10,243</b>		<b>15,680</b>		<b>8,571</b>		<b>10,536</b>		<b>14,861</b>	
<b>2017/18 Academic Year</b>										
Provincial										
Grant	3,648	100	6,120	100	1,960	100	1,960	57	9,780	100
Loan	0	0	0	0	0	0	1,457	43	0	0
<b>Total</b>	<b>3,648</b>	<b>100</b>	<b>6,120</b>	<b>100</b>	<b>1,960</b>	<b>100</b>	<b>3,417</b>	<b>100</b>	<b>9,780</b>	<b>100</b>
Federal										
<b>Total</b>	<b>7,271</b>		<b>10,082</b>		<b>6,199</b>		<b>7,863</b>		<b>10,920</b>	
<b>Total for 2017/18 Academic Year</b>	<b>10,919</b>		<b>16,202</b>		<b>8,159</b>		<b>11,280</b>		<b>20,700</b>	

1. Scenario covers a dependent student, in a family of four, attending first year of Arts and Science program at the University of Toronto.

2. Scenario covers a mature student living with parents and attending first year of an MBA program at Western University. The student's prior-year income was \$10,000, and the parents' prior-year income was \$200,000. For mature students, only the student's income is considered for determining student aid.

## 3.0 Audit Objective and Scope

The objective of the audit is to ensure that the Ministry of Training, Colleges and Universities (Ministry) has effective controls and procedures in place to ensure that:

- only eligible students receive financial assistance under the Ontario Student Assistance Program (OSAP) in the proper amount as outlined in legislation and government policy;
- loans are promptly collected when they become due; and
- program and operational effectiveness are measured, assessed and publicly reported on.

Before starting our work, we identified the audit criteria we would use to address our audit objective. These criteria were established based on a review of applicable legislation, policies and procedures, internal and external studies, and best practices. Senior management at the Ministry reviewed and agreed with the suitability of our audit objective and related criteria as listed in **Appendix 4**.

### Audit Focused on 97% of Financial Aid Provided in 2017/18

The focus of the audit was on the Ontario Student Grants and Combined Canada-Ontario Student Loans for full-time students, which together represent about 97% of the Ontario financial aid provided to students in 2017/18. We reviewed procedures for assessing applicants' eligibility and financial-aid entitlement, providing funds to approved applicants, and collecting repayments on loans that become due.

The program has undergone significant changes in the last year with respect to eligibility and the type of aid available. As a result, we focused on activities in the 2017/18 academic year, but also considered data and events in the last five academic years where relevant. We conducted our audit from January to July 2018, and obtained written representation from the Ministry that effective

November 7, 2018, it had provided us with all the information it was aware of that could significantly affect the findings or the conclusion of this report.

We conducted our audit work primarily at the Student Financial Assistance Branch in Thunder Bay and at the Ministry's corporate office in Toronto. We also conducted work at the Ministry of Finance, which works to collect Ontario student loans that have gone into default.

In conducting our work, we reviewed key documents such as the OSAP application, program guidelines and policies, and agreements with the federal government and Financial Aid Offices (Offices) at post-secondary institutions responsible for OSAP assessments on the Ministry's behalf. We also sampled inspection reports of Offices, and investigation reports relating to recipients suspected of abusing the system.

In addition, we reviewed the Ministry's IT system to assess whether it properly determined eligibility and the amount and type of financial aid. We also assessed access and privacy controls in place to help protect students' personal and financial information.

We asked the Ministry for OSAP-related data for full-time students for the last five academic years so we could conduct analyses. It took the Ministry more than three months to provide us with accurate data, causing us audit inefficiencies and additional costs.

The academic year for post-secondary institutions runs from August 1 to July 31, while the government's fiscal year runs from April 1 to March 31, so financial information in this report is based on the fiscal year, whereas student-related data is based on the academic year.

We conducted our work and reported on the results of our examination in accordance with the applicable Canadian Standards on Assurance Engagements—Direct Engagements issued by the Auditing and Assurance Standards Board of the Chartered Professional Accountants of Canada. This included obtaining a reasonable level of assurance.

The Office of the Auditor General of Ontario applies the Canadian Standards of Quality Control

and, as a result, maintains a comprehensive quality control system that includes documented policies and procedures with respect to compliance with rules of professional conduct, professional standards and applicable legal and regulatory requirements.

We have complied with the independence and other ethical requirements of the Code of Professional Conduct of the Canadian Professional Accountants of Ontario, which are founded on fundamental principles of integrity, objectivity, professional competence and due care, confidentiality and professional behaviour.

## 4.0 Detailed Audit Observations

### 4.1 Major Program Changes

#### 4.1.1 OSAP Changes Led to Unexpected Cost Increases

The changes to OSAP that took effect in 2017/18 cost considerably more than the Province anticipated, and will likely continue to cost more in the next few years.

The Ministry originally predicted in its 2016 Cabinet submission that the changes would have a positive impact on the Province's finances, initially estimating that annual program costs (in the form of student grants) would increase up to \$220 million by 2020/21. It predicted that this would be offset by additional revenue of \$466 by 2020/21 from the elimination of Ontario's Tuition and Education Tax Credits.

As seen in **Figure 5**, with the changes to OSAP that took effect beginning in the 2017/18 academic year, the value of loans awarded decreased sharply in the 2017/18 fiscal year, while the value of grants increased commensurately. The net cost to the Province has also grown dramatically because so much of the aid now is in the form of non-repayable grants, and more eligible people are applying for it.

The higher-than-expected costs came because the Ministry underestimated the number of students who would apply for assistance under the expanded program when it was preparing its business case.

Based on our review of calculations used to support the projected costs in the 2016 business case to Cabinet, the Ministry used the actual number of OSAP applicants for 2014/15 (the latest actuals available at that time) to cost out the proposed changes to OSAP. The Ministry did not factor in any increase in uptake, even though the changes were for the purpose of increasing access for low- and middle-income students. Further, the estimated costs the Ministry projected for the first two years under the new changes were rounded down by 11% as the Ministry considered the design of the program to be very preliminary at that time.

The Ministry did not expect any increase in full-time enrolment in post-secondary institutions as recent trends showed that enrolment in Ontario colleges and universities was relatively flat. According to the Ministry, any increases would be due to a greater participation rate of students already in studies. The Ministry thought those increases would be modest, as it believed that all individuals who could potentially qualify for assistance would have already applied. The Ministry felt that students already had a strong financial incentive to apply for OSAP under the "30% Ontario Tuition Grant," in place since 2012, which provided grants to dependent students whose parents earned up to \$160,000 per year, regardless of whether they had a financial need.

At the time of our audit, however, the number of recipients for the 2017/18 academic year was up 24% for universities and 27% for colleges compared to the previous year. The Ministry was of the opinion that the higher participation in OSAP was due to its public promotion campaign in 2017, which brought about more awareness.

At the time of the 2018 Ontario Budget, the Province projected that the annual cost of OSAP (that is, the cost of non-repayable grants to students) would reach \$2.012 billion by 2020/21. This

**Figure 5: Trends in Ontario Financial Aid and Program Costs, 2013/14–2017/18 Fiscal Years (\$ 000)**

Prepared by the Office of the Auditor General

	2013/14	2014/15	2015/16	2016/17	% of Total Aid	2017/18	% of Total Aid	Change Between 2016/17 and 2017/18 (%)
Student Loans Awarded and Disbursed <sup>1</sup>	983,957	953,997	1,007,943	1,057,938		215,062		
Less: Ontario Student Operating Grant— Loan Forgiveness <sup>2</sup>	540,606	563,147	563,891	563,681		69,112		
<b>Net Repayable Financial Aid</b>	<b>443,351</b>	<b>390,850</b>	<b>444,052</b>	<b>494,257</b>	<b>33</b>	<b>145,950</b>	<b>8</b>	<b>(70)</b>
Total Grants <sup>1</sup>	925,501	952,883	956,937	960,014		1,574,706		
Total Bursaries <sup>1</sup>	4,807	7,337	7,636	7,891		5,353		
Total Scholarships <sup>1</sup>	40,260	39,364	35,223	35,034		34,238		
<b>Non-repayable Financial Aid<sup>3</sup></b>	<b>970,568</b>	<b>999,584</b>	<b>999,796</b>	<b>1,002,939</b>	<b>67</b>	<b>1,614,297</b>	<b>92</b>	<b>61</b>
<b>Ontario Tuition and Education Tax Credits (Foregone Income Tax Revenue)<sup>4</sup></b>	<b>339,000</b>	<b>343,000</b>	<b>365,000</b>	<b>344,000</b>		<b>0</b>		
<b>Total Program Costs (Amount Not Repayable)</b>	<b>1,309,568</b>	<b>1,342,584</b>	<b>1,364,796</b>	<b>1,346,939</b>		<b>1,614,297</b>		<b>20</b>

1. See details in Appendix 3.

2. Full-time students who received OSAP loans in the 2016/17 academic year or earlier are eligible for loan forgiveness through the Ontario Student Opportunity Grant. The Ministry has up to the end of July 31, 2024, to verify the student's income for 2016/17 and then convert the forgiven amount to a grant.

3. Excludes any costs (write-offs on loan defaults) or revenue (interest income) occurring after loans become repayable.

4. Based on estimates in the Ministry of Finance *Transparency and Taxation Report*, and prorated from calendar to fiscal years. The Ontario tuition and education tax credits were discontinued in September 2017. Ontario students will still be able to claim the tuition amount for eligible tuition fees for studies before September 5, 2017, and will also be able to claim the education amount for months of study before September 2017. Students will continue to be able to carry forward unused amounts to claim in future years.

would represent a 50% increase in the net annual costs of OSAP (from \$1.347 billion in 2016/17, as shown in **Figure 5**, to \$2.012 billion in 2020/21), when the additional revenue to the Province from the discontinuation of the tax credits is factored in. However, the increase is likely to be greater, since to date, the Ministry underestimated the number of eligible students who apply for OSAP.

#### 4.1.2 Changes Did Not Bring More Post-secondary Enrolments

The changes were also intended to improve access to post-secondary education for under-represented groups, defined as Aboriginal, disabled and low-income students, and those who have been out of high school for more than four years. However, the Ministry has been unable to determine whether this in fact happened.

Despite the surge in OSAP recipients in 2017/18, there was no corresponding rise in the number of students attending post-secondary institutions. For the 2016/17 academic year, and for the 2017/18 academic year, full-time enrolment increased only 2% for colleges and 1% for universities, even though the number of OSAP recipients rose by about 25%, as noted above.

The Ministry tracks the number and change in OSAP recipients by student type (such as level of income), but not whether the changes to OSAP led to improved access to post-secondary education for under-represented groups. The Ministry does not know the income levels and other demographic factors of students who have not applied for OSAP. As a result, it does not know if the composition of students enrolled in school has changed. Hence, it does not know if more under-represented people are enrolled in post-secondary education than in the past.

Further, many of the new OSAP recipients in 2017/18 were already enrolled in post-secondary studies, indicating that the changes to OSAP did not result in increased access to post-secondary education as intended. We found that 32% of students

who were not first-year students in an undergraduate program received OSAP for the first time in 2017/18. Therefore, these students had been previously attending post-secondary school without provincial student aid.

#### 4.1.3 Only One Performance Measure Used to Track OSAP Success

The Ministry developed and tracked only one formal performance measure specific to OSAP—the percentage of borrowers who are not in default and properly repaying their debt two years into repayment.

This measure is based on students who received a loan three years prior to the measurement date and have completed or left their studies two years prior to the measurement date. For example, the 2016/17 rate measures those who received a loan in the 2013/14 academic year and completed or left their studies by the end of the 2014/15 academic year.

The performance target set by the Ministry is 93% in good standing by 2020. Actual performance in 2016/17, the last fiscal year for which results are available, was 92.5%.

Although default rates provide useful information, the Ministry should also have indicators to measure OSAP's end goals of helping students get a post-secondary education and then a good job. The Ministry calculates and publicly reports graduation rates and graduate-employment rates by institution and program for all students in public post-secondary institutions. However, it would be useful to measure the same rates separately for OSAP recipients to determine whether OSAP is meeting its overall goals.

Although not a stated performance measure, the Ministry also publicly reports the percentage of OSAP recipients using the Repayment Assistance Plan, student default rates by institution and program, and the combined usage and default rates based on the number of borrowers who were in default and/or used the Repayment Assistance Plan

for one or more terms versus the total number of loan recipients. For 2016, the first and latest year for which the Ministry calculated these results, the Repayment Assistance Plan usage rate was 33.4%, and the combined usage-default rate was 39.9%.

In its 2017/18 budget submission to Cabinet, the Ministry proposed to Treasury Board additional performance measures related to OSAP, including indicators to measure whether access to post-secondary education for students from low-income backgrounds was improving, and whether average student debt at completion of studies was decreasing. At the time of our audit, Treasury Board had not made a decision on these measures. Furthermore, the Ministry was not tracking them even for internal reporting purposes.

## RECOMMENDATION 1

To determine whether the objectives of changes to the Ontario Student Assistance Program (OSAP) are being met, we recommend that the Ministry of Training, Colleges and Universities:

- determine whether there has been an increase in the enrolment of students in post-secondary institutions from under-represented groups; and
- track and publicly report measures such as graduation and employment rates for OSAP recipients in their field of study, and average student debt levels at completion of studies.

## MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and approached the Higher Education Quality Council of Ontario in May 2018 regarding the use of two of their commissioned studies that examine the relationship between participation in post-secondary education and household income. The Ministry will continue to work with the Council to identify future studies that will track participation by household income, and other outcome measures such as later earnings, average student

debt levels and links to the labour market. The Ministry will work with other areas within the Ministry to co-ordinate tracking and public reporting of outcomes for OSAP recipients, and other learners.

## 4.2 Eligibility to Receive Financial Aid

### 4.2.1 Eligibility and Amount of Aid Properly Determined

We reviewed testing performed by the Ministry to ensure that eligibility requirements and financial-aid calculations had been adequately tested before the online application for the 2017/18 academic year was made available for public use.

We found that the completeness and accuracy of test results could not be assured because the Ministry maintains no supporting documentation about the results of system tests it performs. Such documentation would validate whether tests were done as required and the results were in line with expected outcomes.

As a result, we manually re-performed and validated the eligibility requirements and financial aid calculations for 15 applicant scenarios. The scenarios involved various types of students (dependent on their parents for support, single independent or mature, married, or sole-support parent); varying levels of student income and/or parental income; living at home or away from home during a period of study; in undergraduate and graduate programs; institutions and institution types; and a student who should not get OSAP because they received an overpayment beyond a certain amount in a prior year.

For all scenarios tested, we found that eligibility and the amount of financial aid were properly determined.

**Figure 6: OSAP Disbursements to Mature Students (Four Years Out of High School), 2016/17–2017/18 Academic Years**

Prepared by the Office of the Auditor General of Ontario

Year	Grant Only		Loan Only		Grant and Loan		Total	
	#	\$ 000	#	\$ 000	#	\$ 000	#	\$ 000
2016/17	1,843	1,790	65,000	271,864	64,731	805,910	131,574	1,079,565
2017/18	165,148	918,678	29	76	10,001	69,997	175,178	988,750
<b>Change</b>	<b>163,305</b>	<b>916,888</b>	<b>(64,971)</b>	<b>(271,788)</b>	<b>(54,730)</b>	<b>(735,913)</b>	<b>33%</b>	<b>(8%)</b>

#### 4.2.2 Income of Parents Supporting Mature Students Not Included in Aid Calculation

Parents of single dependent students who graduated from high school within the last four years are expected to contribute to their children's education based on their financial ability. This reduces the potential amount of aid from OSAP. However, if students have been out of high school for four or more years and are still dependent on their family, only the student's income is considered in calculating aid entitlement—regardless of the family's income.

As a result of recent program changes that made mature students (defined as being out of high school for four or more years) eligible for all Ontario student grants, there has been an increase in the number of mature students who applied for and received OSAP grants in 2017/18.

The number of mature students who applied for OSAP aid increased 28% in the 2017/18 academic year, compared to 2016/17, and the number of mature students awarded OSAP increased 33% over the same period. The amount of total financial aid actually decreased for this group, however, as the composition of aid changed—in 2017/18, 93% of aid to mature students was in the form of grants only, while 75% of the aid was combined as a grant and a loan in the previous year (see **Figure 6**).

We found that 27% of mature OSAP recipients who previously attended post-secondary institutions received OSAP for the first time in 2017/18 (and so had apparently been studying previously without provincial aid). It is unclear whether many of these students needed OSAP support to access

post-secondary education, as the Ministry has no income data related to students not receiving financial aid and is therefore unable to determine the household income of these students. To this point, 6% of mature students who were entitled to both a grant and loan in 2017/18 declined the loan portion of the aid. As well, 28% of mature students indicated on their application that they were living with their parents.

For mature students living with their parents, the amount of living allowance used to calculate their financial aid was the same as the living allowance used for dependent students who had been out of high school less than four years. However, in the case of dependent students, parental income was taken into consideration when calculating the amount and type of financial aid.

#### RECOMMENDATION 2

The Ministry of Training, Colleges and Universities should review its Ontario Student Assistance Program entitlement policy with respect to students out of high school for more than four years to ensure that the policy more accurately reflects their actual needs and circumstances.

#### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and recognizes the Auditor General's concerns. The Ministry is committed to review the OSAP entitlement policy for students who are four years or more out of high school and live at home with their parents.

The Ministry agrees that the amount of OSAP issued to these students should reflect their actual needs and circumstances. This review will include analyzing the data on independent students to determine the impact of changing the OSAP assessment as well as if there are any legal implications with changing the assessment for these students. Based on the outcome of the review, the Ministry could make changes to the OSAP entitlement policy for students who have been out of high school for more than four years and live with their parents. These changes will be implemented shortly.

## 4.3 Verification of Application Information

### 4.3.1 Not All Information Affecting Amount of Aid Verified

In calculating the Ontario Student Grant, we noted that the Ministry did not verify some information affecting the financial-needs assessment, including the size of dependent students' families and the value of financial assets owned by a student (and their spouse, if applicable).

For an independent or mature student with children of their own, the Ministry asks for birth certificates to verify the number of dependents. However, where the student is less than four years out of high school and dependent on their parents for support, the Ministry does not verify the number of dependents in a family, which affects the amount of financial aid. Reporting more dependents may increase the amount of overall financial aid a student can receive, as well as the proportion to be offered as a grant rather than loan.

The Ministry could confirm the number of dependents in a family by asking for birth certificates in the same way it does for a student with their own children.

Regarding financial assets of an applicant and their spouse, the Ministry relies entirely on the self-reported amount of assets (if any), and requires

no supporting documents. In addition, the Ministry makes no assessment of the reasonableness of the value of assets reported by, for example, reviewing whether the applicant and their spouse reported any investment or rental income on their income-tax returns. The Ministry told us that students who report assets on their OSAP applications have these assets counted as a resource, as applicable. However, there is the potential that students who do not disclose such assets are getting an unfair advantage.

### RECOMMENDATION 3

We recommend that the Ministry of Training, Colleges and Universities establish processes to verify the number of dependents of an applicant's parents and the value of financial assets owned by a student (and spouse, if applicable).

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and expects to establish a process in time to begin verifying the number of dependent children in the parent's family by requiring birth certificates for these children starting in the 2020/21 academic year. In addition, over the next two years, the Ministry will engage with the Canada Revenue Agency to identify whether information from tax returns can be used to identify financial assets owned by applicants and their spouses, if applicable.

If using tax return information is approved, the Ministry will modify its Memo of Understanding with the Canada Revenue Agency to allow sharing of the additional tax information. The Ministry will also develop a process for collecting further documentation from individuals who are identified through the tax information as potentially underreporting their assets.

## 4.4 Overpayments to OSAP Recipients

A change in the Ministry's policy that now requires students to repay some or all of their OSAP grant if they are no longer eligible for a variety of reasons, including withdrawing from studies, should mean a reduction in the amount of unrecovered overpayments in 2017/18 and beyond.

For OSAP purposes, a student is considered to have withdrawn from studies if they drop to part-time status (defined as taking less than 60% of a full course load as identified by the institution they attend) or if they withdraw completely from studies.

### Overpayments to Students Who Withdrew before 2017/18 Cost \$74.4 Million

In the 2016/17 and earlier academic years, students who withdrew from full-time studies after having received an Ontario grant were not required to repay any of the grant. In the case of students who withdrew after receiving loans, the resulting overpayments would form part of the outstanding loan balance.

We analyzed Ministry data on students who withdrew from full-time studies for the academic years between 2013/14 and 2016/17, and noted that the Ministry issued \$74.4 million in grants to students who withdrew from their studies. This included about \$14.5 million issued after students had already left their studies, as the Ministry's system had not been updated by Financial Aid Offices to reflect the withdrawal in a timely way. Students were not required to repay any of the \$74.4 million.

During the same four-year period, the Ministry issued \$248.9 million in loans to students who withdrew from their studies. About \$18.7 million of this amount was issued after students had already left school, again as the Ministry's system had not been updated in a timely manner.

We noted that the average time to process withdrawals was about one month. However, in cases where students received grants after dropping out, it took an average of about 10 days longer to record

the withdrawal. The Ministry told us that students often do not inform their school when they stop attending classes.

### Overpayments to Students Who Withdraw Should Decrease Starting in the 2017/18 Academic Year

In the 2017/18 academic year, the Ministry changed the OSAP rules to address weaknesses in the forgiveness of grant overpayments described above.

The revised policy requires that grants to students who withdraw from full-time studies within the first 30 days and do not return within five months be converted to repayable loans. After 30 days, the amount of a grant converted to a loan is prorated based on the time the student was in school. Grant overpayments converted to loans are repayable through the normal loan process.

We analyzed Ministry data on students who withdrew from full-time studies in the 2017/18 academic year and summarized the findings in **Figure 7**, along with data from previous years.

Specifically, as of May 31, 2018, the Ministry had issued \$65.7 million in Ontario Student Grants to students who withdrew. Of that, \$11.8 million went to students who withdrew within the first 30 days of studies and so would have to be converted to loans. The remaining \$53.9 million went to students who withdrew after 30 days, so prorated portions of those grants would be converted to loans.

At the time of our audit, the Ministry had not yet converted any of these grants to loans; it said the conversion process would be done in late summer or early fall 2018.

### Grants Also Convert to Loans if Income Unverified within 12 Months

In order to determine an applicant's ability to pay for their education, the Ministry considers the parents' income for the prior year in the case of dependent students. In the case of independent students (single, married, common-law or sole-support parent), the student's prior year income and the prior year income of their spouse, if applicable, is taken into consideration.

**Figure 7: OSAP Overpayments to Students Who Withdrew, 2013/14–2017/18 Academic Years (\$)**

Source of data: Ministry of Training, Colleges and Universities

	2013/14	2014/15	2015/16	2016/17	Total	2017/18
Grants issued before student withdrew	14,247,883	14,959,326	15,156,566	15,459,365	<b>59,823,140</b>	63,521,816
Grants issued after student withdrew	1,908,929	3,434,384	7,610,021	1,583,698	<b>14,537,032</b>	2,161,856
<b>Total grants issued to students who withdrew from studies</b>	<b>16,156,812</b>	<b>18,393,710</b>	<b>22,766,587</b>	<b>17,043,063</b>	<b>74,360,172</b>	<b>65,683,672</b>
Loans issued before student withdrew	60,058,013	52,178,015	58,418,383	59,571,485	<b>230,225,896</b>	700,414
Loans issued after student withdrew	4,451,922	4,474,500	4,859,290	4,916,276	<b>18,701,998</b>	74,102
<b>Total loans issued to students who withdrew from studies</b>	<b>64,509,935</b>	<b>56,652,515</b>	<b>63,277,673</b>	<b>64,487,761</b>	<b>248,927,884</b>	<b>774,516</b>

In all cases, the Ministry also considers the student's estimate of their income to be earned during the study period. There are inherent issues with verifying study-period income, and these are discussed later in this section. The Ministry attempts to verify income reported on each OSAP application with the amounts reported to Canada Revenue for tax purposes.

For the 2016/17 and prior academic years, the Ministry required that applicable income be verified before funds were disbursed for the two major grants under OSAP. However, student loans and all other grants could be disbursed prior to verification of income. If discrepancies in income were noted between the amount reported in the OSAP application and to the Canada Revenue Agency, the Ministry would reassess the student's loan and grant entitlement. If it determined the student was overpaid, the Ministry would attempt to recover the loan or grant overpayment by reducing the remaining funding to be disbursed in that academic year. In cases where the student had already received all their funding, no attempt would be made to recover the overpayments and any resulting loan overpayments would be repaid when the loan became due. Under certain circumstances, students would be restricted from future OSAP funding until large overpayments were paid down.

Starting in the 2017/18 academic year, the Ministry changed its policy to require that income must be successfully verified within 12 months of the start date of a student's study period (typically in early September).

If income cannot be verified, any Ontario student grants issued are to be converted to loans. In cases of discrepancy between income reported on an OSAP application and income reported on income-tax returns, the student's grant and loan entitlements are reassessed, as in the past. If it is determined that the student was ineligible for some or all of the grant, the resulting overpayment is to be converted into a repayable loan.

As in the past, any loan overpayments would be repaid when the student's loan became due. At the time of our audit, the Ministry had not converted any resulting grant overpayments to loans because 12 months had not yet passed since any of these students began their studies.

With respect to income earned by the student during their study period, the Ministry had difficulties confirming this amount because study periods are usually based on the academic year rather than the calendar year. As a result, the amount could not be confirmed with the Canada Revenue Agency, so the Ministry typically made assumptions when comparing the amount on the OSAP application to that reported to the tax department.

Furthermore, the verification process, such as it was, could not occur until after the study period had ended. Starting in 2017/18, an applicant had to provide their study-period income only if it exceeded \$5,600 per term. This change significantly reduced the number of study-period incomes that the Ministry had to verify. For 2017/18, we determined that only 2.7% of students reported income exceeding \$5,600 per term. It would be simpler for the Ministry to consider prior-year income rather than income projected during the study period.

#### RECOMMENDATION 4

In order to simplify the income-verification process, we recommend that the Ministry of Training, Colleges and Universities consider the applicant's income in the previous year rather than their estimate of income to be earned during the study period.

#### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and is beginning to review options to identify students who may be under-reporting study-period income, in addition to considering opportunities for improving the process to verify income that students receive during their study period. The Ministry will consider the Auditor General's recommendation as it conducts further analysis to determine the most appropriate action for addressing the verification of student income where students may be under-reporting income earned during the study period.

### 4.5 Ministry Oversight of OSAP

As noted in **Section 2.3**, Ministry oversight activities include the inspection of Financial Aid Offices at both public and private institutions, and the investigation of selected student files. Without an inspection process, the Ministry cannot be assured that Financial Aid Offices are administering OSAP

applications in accordance with Ministry policies and guidelines, potentially resulting in ineligible people obtaining financial aid.

We reviewed the processes for each and tested a sample of inspections of Financial Aid Offices conducted within the last three years. We selected for review 10 public institutions and 20 private ones. We noted that all OSAP-approved institutions were inspected according to the Ministry's inspection cycle—every three years for public institutions and every two for private institutions. However, we had some concerns with the Ministry's inspection and investigation processes. We describe them below.

#### 4.5.1 Too Few Student Files Examined to Effectively Identify Problems

The number of student files selected during inspections of Financial Aid Offices is not commensurate with the size of the institution being inspected. As a result, the inspection process provides little assurance of the soundness of operations and performance of the Offices.

Fixed sample sizes are used regardless of the size of the institution or how many of its students receive OSAP. Specifically, for private institutions, the sample size is 10 student files from the most recently completed academic year. If the institution has fewer than 50 students, fewer than 10 student files can be selected. For public institutions, the sample size is 20 student files from the most recently completed academic year, and five of the 20 must have received financial aid through the Bursary for Students with Disabilities.

By having a fixed sample size rather than one based on the size and risk of the institution, there is a lower likelihood of selecting files that contain major issues. To put this in perspective, the annual number of students receiving OSAP by institution ranged from one to 34,800. According to the American Institute of Certified Public Accountants, the minimum sample sizes for a population of 250 or more are 25 for a low level of assurance, 40 for a medium level, and 60 for a high level. By this

measure, choosing only 20 student files for inspection at public institutions (or 10 for private institutions), does not give the Ministry even a low level of assurance on the population being examined.

The Ministry told us that student files sampled are chosen from a list of OSAP recipients at the institution who had changes made to their files by the Financial Aid Office. It also said that the more complex the student file, the more likely it is to be chosen for review. The Ministry also told us that files are selected in areas where previous deficiencies were found. However, the inspection files we reviewed did not document why those specific files were chosen for testing.

### RECOMMENDATION 5

To increase the level of assurance provided by the inspection process, we recommend that the Ministry of Training, Colleges and Universities increase the number of student files selected during inspections of Financial Aid Offices, and consider both the risk and the student population receiving Ontario Student Assistance Program aid at the institution.

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and is updating the inspection sampling, which includes increasing the number of student files reviewed according to the student population of the institution. Files will be selected based on their complexity and an analysis of risk data. The Ministry will also consider the sampling methodology used by the American Institute of Certified Public Accountants.

#### 4.5.2 Need for Improvement Unclear When Public Institutions Get No Pass/Fail Grade

Failure to assign a compliance rating to a public institution following an inspection of its Financial Aid Office may result in that Office being unclear on the need for improvement.

Once an inspection is completed, the compliance officer is supposed to brief staff at the Financial Aid Office on his or her findings, and within 30 days provide the Office with a copy of the inspection report. The report lists any deficiencies noted during the inspections but does not indicate the severity of each.

In the case of private institutions, the report indicates whether the Office passed or failed. A fail rating is assigned when the institution fails to attain a minimum score in four of the 19 areas inspected.

However, public institutions do not get a pass or fail rating. Until 2016/17, public institutions were given a compliance rating of high, medium or low. After 2016/17, they received no rating at all, although the Ministry still assigns a compliance rating for internal purposes, but these are assigned subjectively by the inspector, as there is no weighted scoring system in place. At the time of our audit, the internal compliance ratings for public institutions from the latest round of inspections were as follows:

- 20 were rated high;
- 17 were rated medium;
- two were low; and
- 16 were unrated.

See **Figure 8** for more details.

The Ministry informed us that after discussion with the Ontario Association of Student Financial Aid Administrators, it decided to end the practice of providing compliance ratings in its inspection reports to public institutions, because there were no agreements in place with the institutions requiring a certain standard be maintained. Instead, the requirement is that the institutions adhere to the Ministry's policies and procedures, posted online. In contrast, the Ministry has a contract in place with private institutions outlining conditions to be met in order to allow their students to qualify for OSAP.

Although every public institution is required within 30 days of receiving an inspection report to provide the Ministry with a corrective action plan that indicates how it plans to address each of the deficiencies identified, we noted that the Ministry

**Figure 8: Latest Available Inspection Results by Institution Type, as of July 2018**

Source of data: Ministry of Training, Colleges and Universities

Institution Type	Inspection Ratings for Public Institutions				Inspection Ratings for Private Institutions			Total
	High Compliance	Medium Compliance	Low Compliance	No Rating	Pass	Fail	No Rating	
Public universities	11	5	2	7	n/a	n/a	n/a	<b>25</b>
Public colleges	9	12	0	9	n/a	n/a	n/a	<b>30</b>
Private institutions	n/a	n/a	n/a	n/a	120	7	62	<b>189</b>
<b>Total</b>	<b>20</b>	<b>17</b>	<b>2</b>	<b>16</b>	<b>120</b>	<b>7</b>	<b>62</b>	<b>244</b>
<b>% of Total</b>	<b>36</b>	<b>31</b>	<b>4</b>	<b>29</b>	<b>63</b>	<b>4</b>	<b>33</b>	

ensured corrective action was taken only for those public institutions with a low rating. There were no follow-ups at other institutions with deficiencies until the next scheduled inspection of the institution three years later.

Private institutions are also required within 30 days of receiving an inspection report to provide a corrective action plan for any deficiencies noted in the report. These institutions are subject to a Ministry follow-up inspection six months later. If after two or three follow-up inspections (at the Ministry's discretion) corrective measures have not been taken, the institution will have to hire someone approved by the Ministry to monitor and review their areas of weakness, and ensure that corrective actions are taken before the next inspection. We noted that 25 private institutions failed their last two inspections in a row. The Ministry required only one of these institutions to hire a compliance monitor (Academy of Learning – Richmond Hill).

### RECOMMENDATION 6

In order to ensure corrective action is taken by institutions on deficiencies noted in inspections of Financial Aid Offices, we recommend that the Ministry of Training, Colleges and Universities:

- either provide all types of institutions with a compliance rating following an inspection, or clearly identify the severity of each deficiency identified;

- perform timely follow-up inspections with public institutions to ensure corrective action has been taken, in the same way it does for private institutions; and
- put agreements in place with Financial Aid Offices at public institutions regarding compliance with Ministry policies and guidelines for the administration of the Ontario Student Assistance Program.

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendations and is currently in the process of reviewing the OSAP inspection process. Part of the review will include inspection compliance ratings, follow-up measures and updating tracking tools to ensure corrective action is taken in a timely manner. The Ministry will pursue measures to strengthen accountability with its public institution partners to ensure compliance with Ministry policies and guidelines for OSAP administration within the next year.

#### 4.5.3 Insufficient Follow-Up to Ensure Timely Corrective Actions

Compliance officers we spoke with during the audit told us that follow-up inspections occur within the year, generally six to 12 months after the initial inspection that identified an issue, to allow time for corrective action.

Based on a sample of files we reviewed for inspections conducted within the three academic years between 2014/15 and 2016/17, we found that:

- For 23% of institution inspections sampled, the Ministry had not sent the inspection report to the institution's Financial Aid Office within its stated timeline of 30 days after the inspection. The dates they were sent ranged between 32 and 63 days after the inspection had been completed.
- For 20% of institution inspections sampled, we noted that the management response outlining corrective actions to identified deficiencies had not been sent to the Ministry within 30 days. Those that were submitted late ranged from 34 to 79 days after receipt of the Ministry's inspection report. In an additional 13% of cases, there was no evidence that the institution provided any management response to the Ministry.
- In 23% of the inspections sampled where the institution submitted a management response, the response did not address all issues cited in the inspection report. However, in each of those instances, the Ministry followed up until it received an appropriate management response.
- For most of the private institutions in our sample that failed an inspection, we found no evidence that the Ministry had conducted the required follow-up inspection within one year after the inspection.

## RECOMMENDATION 7

To help ensure Financial Aid Offices (Offices) take corrective action on a timely basis on deficiencies noted by a Ministry of Training, Colleges and University inspection, we recommend that the Ministry:

- ensure inspection reports are provided to Offices within 30 days of the inspection;
- ensure that in all cases the Offices have provided a thorough and timely response to

all deficiencies identified in the inspection report; and

- conduct follow-up inspections of all institutions that fail an inspection on a timely basis.

## MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendations and is currently in the process of reviewing the OSAP inspection process. Part of the review will include updating the inspection reporting and tracking tools. The Ministry will provide inspection reports to Financial Aid Offices within 30 days of inspection. The Ministry will ensure that Financial Aid Offices provide a corrective action plan that addresses all the deficiencies identified in the inspection report within the required timeline. The Ministry will conduct follow-up inspections of all institutions that fail an inspection within six months to a year, depending on the severity of the issues identified in the inspection.

### 4.5.4 Inadequate Tracking of Inspection-Related Data Hinders Corrective Action

The Ministry maintains a spreadsheet to track compliance inspections due and completed, and to report on the results of the inspections and the status of corrective action taken. Concerns with the documentation related to the inspection process were as follows:

- Twenty-nine percent of public institutions received no compliance rating, and for 33% of private institutions, there was no indication whether they had passed or failed the inspection (see **Figure 8**).
- Relevant information from the prior inspection schedule required to keep track of inspection status was not transferred to the new schedule. This data included the dates of previous inspections, current review status, follow-up required, and the inspector conducting the inspection. Without this

information on the inspection schedule, it was necessary to review each separate inspection file.

- The spreadsheet contained no information that would allow management to track whether the required oversight activities were in fact occurring. For instance, the spreadsheet did not record the date that inspection reports were sent to institutions, the date the institutions provided an action plan to the Ministry to address deficiencies, or the date of a follow-up Ministry inspection. This information is only stored in individual inspection files which we tested on a sample basis (see **Section 4.5.3**).
- Issues or deficiencies identified during an inspection were recorded only in general terms—for example, described only as related to “admissions” or “refund/withdrawal procedures.” But there were no specifics about the actual deficiencies. As a result, the Ministry was unable to track or analyze in a meaningful way issues identified in its inspection process. This prevents it from being able to identify trends and common deficiencies that could be resolved on a system-wide basis, and identifying best practices that could be shared across the entire system.

At the time of our audit, the Ministry informed us that it was planning to design a database to more completely and consistently record inspection information.

## RECOMMENDATION 8

In order to ensure appropriate corrective action is taken following an inspection of Financial Aid Offices, we recommend that the Ministry of Training, Colleges and Universities record key inspection-related data in a consistent manner. This would include the date and results of both current and previous inspections, deficiencies noted, the corrective action committed to and the date it is performed.

## MINISTRY RESPONSE

The Ministry agrees with the Auditor General’s recommendation and is currently in the process of reviewing the OSAP inspection process. Part of the review includes updating inspection tools to record key information, such as results, deficiencies noted, actions taken or required of both current and past inspections. The updated tools will assist in determining appropriate follow-up based on the severity of issues identified during the inspection.

### 4.5.5 Inadequate Data Impedes Analysis of and Reporting on Student Investigations

As with the inspection schedules maintained by the Ministry, we found weaknesses with how the results of investigations of OSAP recipients were reported. Specifically:

- The Ministry’s schedule of investigations does not contain basic information, such as institution type, to allow the Ministry to trend and analyze investigations to determine which particular types of institutions were vulnerable to certain issues.
- Neither the nature nor the source of the issue is described in adequate detail to allow meaningful conclusions to be drawn.

Compliance officers, responsible for conducting investigations, are not provided with policies and manuals. This creates inconsistencies and lack of standardization in procedures and documentation. Further, without standard procedures, processes and documentation requirements in place, there is no assurance of appropriate due diligence in the conduct of investigations.

## RECOMMENDATION 9

To ensure investigations of students are conducted in a consistent high-quality manner, we recommend that the Ministry of Training, Colleges and Universities:

- include in its schedule/database of investigations the information necessary to analyze trends and patterns: and
- create procedural guidelines and checklists for investigations and documentation standards.

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and is in the process of reviewing its current investigation tracking system to include more details as per the recommendations. In addition, the Ministry has already begun to develop a procedures manual to assist in investigations.

#### 4.5.6 Ministry Does Not Track Program Complaints So Cannot Make System-Wide Fixes

The Ministry does not track or trend complaints about OSAP to allow for system-wide corrective action; nor does it keep lists of students calling or writing to voice concerns. Instead, policy analysts deal with each issue on an individual basis, with resolution conducted by phone. Appropriate notes are to be attached to the student's system file where applicable. However, no independent database of student complaints is maintained, so systemic issues raised by students cannot be identified or tracked.

The Ministry informed us that although it does not track complaints, it tracks inquiries made to the Ministry through social media.

### RECOMMENDATION 10

In order to take timely corrective action on a system-wide basis as appropriate, we recommend that the Ministry of Training, Colleges and Universities:

- track and maintain a complaints database on the Ontario Student Assistance Program; and
- analyze the data on a periodic basis.

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation for student concerns and complaints that may come from avenues other than social media. The Ministry's Communications Branch currently uses a web-based database to track any OSAP issues that come through social media channels. To ensure efforts are not duplicated, the Ministry will develop a database to more closely track and monitor complaints received by students from channels other than social media, including phone calls, emails and written correspondence. In addition, the Ministry will include data collected through other avenues, such as user-testing focus groups, and determine methodologies that will facilitate reporting.

The Ministry will review the database on a regular basis to ensure issues are addressed in a timely manner and to identify possible trends or systemic issues that need to be addressed on a systemic basis.

#### 4.5.7 Ministry Inspections Failed to Capture Misuse of \$220,000 in OSAP Funds

The Ministry's inspection process failed to detect an Ontario university (Laurentian) that was applying grant money provided by OSAP's Bursary for Students with Disabilities toward services the university was already being funded for by the Ministry's Integrated Accessibility Fund for Students with Disabilities program. In essence, the university was double-dipping by making disabled students pay for services that the government had already funded.

This happened between 2011 and 2017, and involved \$219,197 in Ontario student bursaries being used inappropriately. The issue was first noted through a formal email complaint to the Ministry in April 2016 by a former student and bursary recipient.

The Ministry had previously inspected the institution in October 2013, 2½ years before the student complained in April 2016. However, the issue went undetected.

Only after being notified by the student, and after reviewing the scope of the complaint through its own inspection processes in March 2017, did the Ministry's Investigations and Compliance Unit conclude that the university abused current Ministry policies regarding bursary funding to disabled students. Nine months later, in November 2017, the university offered to repay the Ministry \$258,881 (\$219,197 plus a penalty) over five years in equal instalments.

The Ministry has since added a requirement to its inspection process of Financial Aid Offices that of the sample of 20 cases selected for inspection, five must pertain to students who received aid through the Bursary for Students with Disabilities.

## 4.6 Loan Repayment and Default

### 4.6.1 Large Amount of Student Loans Uncollected Since Inception of OSAP

At the time of our audit, there was almost \$1 billion in student loans in arrears since OSAP began in 1975 (see **Figure 9**). About half—\$490 million, representing 68,500 student loans—was overdue for more than 10 years, although collection efforts continue. An additional \$231 million in 48,200 accounts has been overdue between four and 10 years. Almost \$463 million of this amount has been written down.

About \$69 million in loans has gone into default in each of the last five years. The cumulative amount of loans in default represents about 18% of the loans receivable balance at March 31, 2018. However, the Ministry expects the annual value of loans going into default to drop in future because it now awards fewer loans.

**Figure 9: Age of Loans in Default as of March 31, 2018**

Source of data: Ministry of Finance and Government of Ontario Integrated Financial Information System

Age	Loan Value*	
	(\$)	# of Loans
Less than 90 days	21,267,403	4,673
90-179 days	20,863,083	4,623
180 days-1 year	24,668,488	5,344
1-2 years	58,160,296	12,721
2-4 years	107,132,553	23,556
4-6 years	90,993,063	20,102
6-8 years	72,130,750	15,269
8-10 years	68,265,370	12,841
More than 10 years	490,338,584	68,515
<b>Total</b>	<b>953,819,590</b>	<b>167,644</b>

\* Represents gross amount of defaulted loans before write-downs because collection efforts continue on gross amount.

### 4.6.2 Effective Collection Efforts Start Only Nine Months after Loans Go into Default

Although student loans are considered in default after 90 days in arrears, aggressive collection efforts do not begin until months later. Parties involved in the collection of overdue loans include the federal National Student Loans Service Centre (Centre), the Ontario Ministry of Finance (Finance), and private collection agencies.

The Centre makes some collection efforts on loans that are overdue between 90 and 270 days by sending notices of arrears and making phone calls at intervals between 105 and 270 days in arrears; verifying the accuracy of current contact information for the loan recipient; and offering ways for borrowers to bring their delinquent accounts back into good standing. This may include allowing up to three months of interest in arrears to be added to the principal balance of the loan, and to be repaid over the life of the loan. The Centre also assists in back-dating applications for repayment assistance up to six months in cases where borrowers missed the deadline for the Repayment Assistance Plan.

The Centre transfers defaulted amounts to Finance for more aggressive collection efforts when

**Figure 10: Recovery of Defaulted Loans by Collection Method, 2013/14–2017/18 Fiscal Years (\$)**

Source of data: Ministry of Finance

Collection Method	2013/14	2014/15	2015/16	2016/17	2017/18	Total	% of Total
Private collection agencies	25,067,289	23,577,764	25,009,364	27,140,116	26,557,037	<b>127,351,570</b>	47
Income-tax garnishments	24,829,546	25,105,817	26,385,120	25,400,144	24,449,686	<b>126,170,313</b>	46
Soft collections (e.g., form letters, phone calls, etc.)	2,813,932	2,748,418	2,831,270	2,896,064	3,091,709	<b>14,381,393</b>	5
Bankruptcy and consumer proposals	1,041,740	939,843	996,903	942,433	1,006,789	<b>4,927,708</b>	2
<b>Total collected/recovered</b>	<b>53,752,507</b>	<b>52,371,842</b>	<b>55,222,657</b>	<b>56,378,757</b>	<b>55,105,221</b>	<b>272,830,984</b>	<b>100</b>

the loans are nine months in arrears. The Ministry informed us that the Canadian government does the same thing for its loans.

The two most effective approaches used by Finance were the engagement of private collection agencies and garnishing income-tax refunds through the Canada Revenue Agency. The latter had a slightly worse collection rate—an average of 46%, compared to 47% for collection agencies over the last five years. Combined, these two collection methods accounted for 93% of all loans recovered, as illustrated in **Figure 10**.

#### Collection Agencies Get 16% Commission

Private collection agencies are paid a 16% commission on the amounts they recover—about \$20 million of the \$127.4 million collected over the last five years (the Province pays the commission and applies 100% of the recoveries to students' outstanding loan balances). In contrast, about 1% of the entire amount recovered from income-tax refunds over the same period (\$126.2 million) was paid as a fee to the Revenue Canada Agency. Attempting to collect from tax refunds first should, therefore, lead to higher net recoveries.

Finance staff told us that they transfer uncollected loans to private collection agencies first, before attempting to collect income-tax refunds.

Defaulted accounts remain with the agencies until an account is paid in full, a debtor is deceased, declares bankruptcy, or receives medical loan forgiveness in the case of a permanent disability.

Finance told us that if there have been no payments on an account approximately one year after it has been assigned to an agency, the process for garnishing income-tax refunds begins. Finance also informed us that regardless of the age of an overdue account, private agencies will continue to make calls, send letters, report debts to credit bureau agencies, and even pursue legal action.

When asked why it does not try to recover overdue amounts from income-tax refunds before engaging agencies, Finance informed us that its agreement with the Canada Revenue Agency requires it to first make every reasonable effort to collect the debt prior to asking the tax department. In addition, amounts collected through the income-tax garnishing program only cost the Province about 1% in administration fees charged by the Canada Revenue Agency. Any changes to the existing system would therefore bring additional costs for the Ministry, including the need for additional staffing to manage the process internally.

Many other jurisdictions in Canada had similar collection processes—like Ontario, for example, others considered that a loan was in default after 90 days. However, Manitoba forwards all loans to

the Canada Revenue Agency for collection if no payment has been received for five months, until the borrower has either repaid the loan, including outstanding interest, or enters the Repayment Assistance Plan.

## RECOMMENDATION 11

To improve collection of defaulted loans of the Ontario Student Assistance Program in the most cost-effective manner, we recommend:

- the Ministry of Training, Colleges and Universities work with the federal government, which contracts with the National Student Loans Service Centre, to initiate collection efforts on student loans sooner after they go into default; and
- the Ontario Ministry of Finance renegotiate its contract with the Canada Revenue Agency to enable garnishing of income-tax refunds sooner than at present.

## MINISTRY OF TRAINING, COLLEGES AND UNIVERSITIES RESPONSE

The Ministry agrees with the Auditor General's recommendation and will engage with the federal government and the National Student Loans Service Centre to identify opportunities to apply more assertive collective measures once the borrower's student loans go into arrears or the borrower defaults on their student loan payments.

## MINISTRY OF FINANCE RESPONSE

The Ministry of Finance agrees with the Auditor General's recommendation that there is value in re-evaluating when garnishments of income tax refunds take place. The Ministry will assess options for changing the timing, including any cost and staffing impacts. The Ministry will engage the Canada Revenue Agency to identify any barriers to proposed timing changes.

## 4.6.3 Private Career Colleges Have High Default Rates

We analyzed default rates by institution types for the five calendar years from 2012 to 2016, and found that students who attended private career colleges had the highest default rates of all institutions approved for OSAP funding, followed by public colleges and public universities.

We noted that default rates were slowly improving for all types of institutions. See **Figure 11** for the five-year trend by institution type in overall default rates.

In 2016, the highest default rate for a private career college was 47.1%, whereas the highest default rates for public colleges and universities were 14.8% and 10.8%, respectively. Further, 41 private career colleges had default rates of at least 20%. **Figure 12** lists the top 10 institutions with the highest default rates in 2016, which are all private career colleges.

We also noted that programs with the highest default rates were in both publicly funded colleges and private career colleges. In 2016, there were 16 programs of study that had default rates of at least 60% (see **Figure 13**). It is unclear why the Ministry supported programs with such high default rates. The Ministry was unaware why certain institutions and specific programs within institutions had high default rates.

### Private Career Colleges Cover Only a Small Portion of Defaults under the Cost-Sharing Program

The effectiveness of the default cost-sharing program with private career colleges was limited, as institutions are only required to cover a small portion of defaulted loans. Cost-sharing applies to those private institutions with an overall default rate above a specified threshold, currently 20%.

The process to determine the amount to be recovered from private career colleges is complicated. It begins every July, when the Ministry calculates default rates of private institutions using

the cohort of students from the three previous academic years. For example, the 2016 default rates pertain to the cohort of students from the 2013/14 academic year.

If an institution's default rate on student loans is above the threshold specified by the Ministry for that year, the institution is required to provide

financial security to the Ministry in the form of either a promissory note or collateral such as a letter of credit for the next academic year. However, only if the institution is above the threshold two years later will it be required to pay.

For example, institutions that were above the threshold in 2016 (which relates to the 2013/14

**Figure 11: Overall Default Rates, 2012–2016, and Use of Repayment Assistance Plan, 2016, by Type of Institution (%)**

Source of data: Ministry of Training, Colleges and Universities

Type of Institution	Default Rates <sup>1</sup>					Repayment Assistance Plan Usage Rates <sup>2</sup>
	2012	2013	2014	2015	2016	2016
Private career colleges	20.60	18.80	18.50	17.00	16.40	42.70
Ontario colleges	13.40	13.20	12.10	10.80	9.80	34.30
Ontario universities	4.60	4.50	4.00	3.60	3.30	30.30
Other private and publicly funded institutions	4.20	3.70	3.70	3.40	2.50	35.70
<b>Overall</b>	<b>9.80</b>	<b>9.60</b>	<b>9.00</b>	<b>8.10</b>	<b>7.50</b>	<b>33.40</b>

1. The default rate is calculated based on the number of defaulted loans as a percentage of the total number of loans issued for students at the institution. For example, the 2016 default rates reflect the repayment status of students who were issued Canada-Ontario Integrated Student Loans in the 2013/14 academic year and completed or exited their studies by 2014/15. The status of these loans was assessed as of July 2016 or about two years after the student was expected to begin repayment.
2. Repayment Assistance Plan (RAP) usage rates are calculated based on the number of borrowers who used RAP for one or more terms as a percentage of the total number of loan recipients. The 2016 usage rate represents the number of loan recipients in 2013/14 that received and applied for repayment assistance for one or more six-month term between 2013/14 and July 2016.

**Figure 12: Top 10 Institutions and Associated Programs with Highest Default Rates, 2016**

Source of data: Ministry of Training, Colleges and Universities

Institution	Overall Default Rate (%)	Institution's Most Defaulted Program	Default Rate of Program (%)
Windsor Career College	47	Graphic Design	43
Academy of Learning, Kingston	46	Medical Office Administrator	29
Looks Aesthetic Academy	43	Advanced Medical Aesthetics and Laser Technician	43
Everest College, Hamilton (King Street)*	41	Executive Office Assistant	60
Luba Mera Institute of Aesthetics and Cosmetology	40	Advanced Aesthetics and Cosmetology	40
Academy of Learning, Guelph*	35	Accounting and Payroll Administration	60
Trillium College, St. Catharines*	33	Business Management	67
Everest College, Windsor*	33	Law Enforcement Foundations	50
Canadian College of Business, Science and Technology, Scarborough	33	Health Office Administration	29
Maxwell College of Advanced Technology	33	Personal Support Worker	29

\* In the top 10 institutions with the highest default rate in 2014 and/or 2015.

**Figure 13: Programs of Study and Associated Institutions with Default Rates of at Least 60%, 2016**

Source of data: Ministry of Training, Colleges and Universities

Program with Highest Default Rate		Default Rate (%)	Institution	Institution Type
1	Culinary Skills – Chef Training	88.9	Canadore College	College
2	Police Foundations	72.7	Trillium College, Peterborough	Private Career College
3	Business Administration	66.7	CDI College, Hamilton	Private Career College
4	Business Management	66.7	Trillium College, St. Catharines	Private Career College
5	General Arts and Science	66.7	Cambrian College	College
6	Welding Techniques	66.7	Sault College	College
7	General Arts and Science – One-Year	64.7	Lambton College	College
8	Business Management	63.6	Trillium College, Peterborough	Private Career College
9	Hairstyling	63.6	Trillium College, Toronto (Church St.)	Private Career College
10	Accounting and Payroll Administration	60.0	Academy of Learning, Guelph	Private Career College
11	Business Administration	60.0	CDI College, Ajax	Private Career College
12	Event Management	60.0	CDI College, Hamilton	Private Career College
13	Community Services Worker	60.0	CTS Canadian Career College, Barrie	Private Career College
14	Executive Office Assistant	60.0	Everest College, Hamilton (King St.)	Private Career College
15	Paralegal	60.0	Mohawk College	College
16	Construction Techniques	60.0	Sault College	College

cohort of students) and were required to provide financial security for the 2017/18 academic year, won't necessarily have to actually pay any money until the 2019/20 academic year, when the Ministry will recheck these institutions to determine if they are still above the default cost-sharing threshold.

We would expect a “cost-sharing” program to be split at or near 50/50—meaning the institution and the Ministry equally bear the costs of defaults. However, our review of defaulted loans for all institutions above the threshold for the six years between 2011 and 2016 found that:

- For 2011 and 2012, the latest years for which payments would have been required under cost-sharing, institutions were only required to cover or share the costs of 3% of the total amount of defaulted loans. That is, for \$14 million in defaults, the Ministry is to absorb \$13.6 million and the private institutions only \$417,000 (\$214,000 for 2011 and \$203,000 for 2012). At the time of our audit, the Ministry had collected only \$21,000 for

defaults in 2011, as many of the private institutions with high defaults had permanently closed. For the 2012 defaults, the Ministry had only just informed institutions of their required payments.

- For the remaining years, 2013 to 2016, that we examined, the Ministry planned to review the default rates for these institutions each year from 2017 to 2020 to determine if they are still above the threshold and how much of the defaulted loans (if any) should be recovered.

We also noted that over the last six years, 99 institutions had a default rate higher than 20% at some point during those six years, and six institutions had default rates greater than 20% for all six years.

In January 2014, the Ministry introduced performance standards for private institutions in order for them to remain eligible for OSAP. The standards required them to:

- maintain overall graduation and employment rates for graduates of programs approved for OSAP that are at least 80% of the average of

publicly funded colleges *in one of every three years*; and

- maintain overall Canada-Ontario Integrated Student Loan default rates below the default cost-sharing threshold (20%) in *at least one of every four years*.

If an institution does not meet the requirements in any one year, it would not be eligible for OSAP approval for three years, after which it could re-apply. At the time of our audit, the Ministry had not yet started measuring the first standard for the 2018/19 fiscal year.

## RECOMMENDATION 12

To reduce default rates on Ontario Student Assistance Program (OSAP) loans for students at private career colleges, and to recover a greater proportion of defaulted loans, we recommend that the Ministry of Training, Colleges and Universities:

- revise the cost-sharing program to ensure institutions cover a greater proportion of any defaults;
- recover cost-sharing amounts from institutions sooner—within one year, for example, rather than six;
- follow up with those institutions that have high default rates in two or more consecutive academic years; and
- measure performance standards set for private institutions and take appropriate action regarding their eligibility for OSAP when the standards are not met.

## MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendations and will review the current default cost-sharing program in an effort to recover a greater proportion of defaulted provincial loans in a more timely manner. The Ministry will determine an appropriate timeline to ensure it is following up more regularly with institutions that consistently have high default

rates, and will continue to set and measure performance standards for private institutions.

The Ministry will take appropriate action where private institutions do not meet the standards set out by the Ministry for OSAP designation, including restricting institutions from future OSAP approval for a time-limited and/or indefinite period.

## 4.7 OSAP System Access Controls

### 4.7.1 Unclear If Assessed Risks to Applicant Data Have Been Addressed

The Ministry performed a privacy-impact assessment at the inception of the OSAP transformation project in 2016/17 to identify the potential risks to privacy and for loss or theft of personal student information collected and maintained in the OSAP system.

Although findings and action items were outlined in the assessment, the Ministry was unable to provide any formal documented evidence to demonstrate that issues had been addressed. Examples of issues identified during the privacy impact assessment include failing to maintain a records-retention schedule for OSAP data in compliance with the Archives and Recordkeeping Act, and failing to ensure that data moving between Ontario University Application Centre/Ontario College Application Service systems and the OSAP website is encrypted.

Privacy impact assessments determine whether appropriate controls are in place to safeguard personal information of OSAP applicants and recipients. Industry standards suggest these assessments be performed on a scheduled basis, with the length of time between assessments dependent on the industry and level of risk the entity is willing to assume. However, the Ministry informed us that it will not perform a new privacy-impact assessment following the scheduled system rollover for the 2018/19 application.

The Office of the Privacy Commissioner of Canada, for example, requires that a privacy-impact

assessment be completed for all new or redesigned programs and services. This would include an assessment to determine that the changes identified as part of the annual rollover to accept new application data for the upcoming year do not have a negative impact on privacy. If the Ministry were to follow this protocol, an assessment should be completed annually.

### RECOMMENDATION 13

To improve safeguarding of personal information in the Ontario Student Assistance Program system, we recommend the Ministry of Training, Colleges and Universities ensure that action items from the last privacy impact assessment be addressed and documented, and that it promptly evaluate the benefits of doing such assessments yearly.

### MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and takes the protection of student information seriously. The Ministry has begun the process of implementing all action items from the last privacy impact assessment that are applicable for the OSAP system. The Ministry agrees to immediately evaluate the benefits of doing privacy assessments yearly and is in contact with appropriate privacy offices within the Ontario Government for evaluating the benefits of doing yearly assessments.

#### 4.7.2 OSAP Information System Vulnerable to Unauthorized Use

The Ministry did not have a formal process in place to review who is authorized to access the OSAP information system, or the level of authorization of each user. Although the Ministry completed a review of user access rights at Financial Aid Offices in July 2018, it was unclear whether this was a one-time review or whether it was performed annually.

During our review of access control violations, we noted that an employee at one Financial Aid Office terminated in June 2017 still had access to the OSAP system until February 2018. This should have been detected by the Ministry if user access reviews were being performed on an annual basis.

We also noted that the checks around system access by Ministry employees included only whether a user's access was appropriately listed as either active or inactive, but not whether the level of access was appropriate. This may result in users having more access rights than necessary.

The Ministry also lacked a formal process to revoke system access for employees of Financial Aid Offices at educational institutions. We noted in 40% of terminated employee files we reviewed that the Ministry specified only that system access had to be removed, but had taken no steps to actually revoke access until we advised it of our findings. The risk is that access credentials of terminated employees could be used to submit and process unauthorized or fraudulent transactions.

Passwords for the OSAP system are not set to expire, contrary to Government of Ontario IT standards requiring that passwords expire in 90 days for normal users and 30 days for those with administrative system access.

We also noted that staff at the Ministry and Financial Aid Offices receive no formal training regarding privacy breaches and protection of personal information. Rather, training slides are posted on a secure website and staff is notified that they are available. However, the training is not mandatory, and the Ministry does not track who has read the material.

### RECOMMENDATION 14

To mitigate the risk of unauthorized users gaining access to the Ontario Student Assistance Program system and potentially processing unauthorized or fraudulent transactions, we recommend that the Ministry of Training, Colleges, and Universities (Ministry):

- perform user-access reviews for both Ministry and Financial Aid Office users to determine whether they have the correct level of access;
- revoke access immediately for terminated employees of both the Ministry and Financial Aid Offices; and
- provide training to Ministry staff and Financial Aid Offices regarding privacy breaches and protection of personal information.

## MINISTRY RESPONSE

The Ministry agrees with the Auditor General's recommendation and takes protection of student information seriously. The Ministry instituted a process in October 2018 to increase the frequency of user-access reviews for both Ministry and Financial Aid Office users during the year.

The Ministry started a full access review and will continue to revoke access immediately for terminated employees of both the Ministry and Financial Aid Offices. As recommended by the Auditor General, the Ministry is performing a review and will make the necessary changes to formalize the process to revoke access.

The Ministry will also provide privacy training to Ministry staff and emphasize to institutions the importance of securing data. The Ministry will review its current privacy training methods to address the Auditor's recommendations and improve its training tools made available for institutions within the next year.

## Appendix 1: OSAP Programs by Application Type for the 2017/18 Academic Year

Prepared by the Office of the Auditor General of Ontario

2017/18 Name of Program	Previous Name of Program	2017/18 Program Description
<b>Application for Full-Time Studies<sup>1</sup></b>		
Combined Canada-Ontario Loan	Canada-Ontario Integrated Student Loan	Student's <b>combined</b> entitlement from both the Canada Student Loan and the Ontario Student Loan capped at \$5,000 per academic term.
Ontario Grant	Ontario Student Grant <sup>2</sup>	<p>Composed of four components:</p> <ul style="list-style-type: none"> <li>• <b>Base Component:</b> A flat per-term amount not based on student's assessed need. Can cover up to 50% of average tuition, based on student's family income and size.</li> <li>• <b>Need Component:</b> Eligibility based on student's allowable costs less total expected resources, including any federal aid.</li> <li>• <b>Tuition Top-Up Component:</b> Provides additional grant funding to students with an individual income of less than \$30,000 or a family income less than \$50,000 if funding from federal student grants, Base and Need components is insufficient to cover the lesser of the actual tuition or average tuition amount. Only for students attending public colleges and universities in Ontario.</li> <li>• <b>Distance Component:</b> Provides an additional grant amount where the post-secondary institution is more than 80 km away from student's home and student has to either commute or live away from home.</li> </ul>
	Living and Learning Grant (MCYS)	Provides \$465 per month to full-time students aged 18–24 who have left the care of an Ontario Children's Aid Society. Funded by Ministry of Children, Community and Social Services as an extension to support provided until youth turns 21.
Canada Grant	Grant for Full-Time Students <sup>3</sup>	Provides students from low-income families \$86.54 per week of study, to a maximum of \$4,500 per academic year. As family income increases, grant decreases, to a minimum of \$100 per academic year for family income at top of threshold.
	Grant for Full-Time Students with Dependents	Eligible students with one or more dependent children and with a family income below a set threshold receive \$46.51 per week of study.
	Grant for Students with Permanent Disabilities <sup>4</sup>	Provides \$2,000 per academic year to students with permanent disabilities to cover standard educational costs (living, tuition, books, etc.). The grant typically displaces the Canada Student Loan.
<b>Application for Services and Equipment for Students with Disabilities</b>		
Ontario Bursary	Ontario Bursary for Students with Disabilities	Provides up to \$2,000 per academic year to students with disabilities for disability-related services and equipment required to participate in post-secondary studies.
Canada Grant	Canada Student Grant for Services and Equipment for Students with Permanent Disabilities	Provides up to \$8,000 per academic year for disability-related services and equipment for students with permanent disabilities.
<b>Application for Deaf Students Studying outside Canada</b>		
Ontario Bursary	Ontario Out-of-Country Bursary for Deaf Students	Provides non-repayable assistance to cover additional costs above standard OSAP assistance for deaf students to study out of country at an institution where language of instruction is American Sign Language (or Quebec Sign Language).

2017/18 Name of Program	Previous Name of Program	2017/18 Program Description
<b>Application for Part-Time Studies</b>		
Ontario Grant	Ontario Part-Time Grant	Provides up to \$500 per academic year to eligible part-time low-income students.
Canada Grant	Grant for Part-Time Studies	Provides up to \$1,800 per typical academic year to part-time low-income students.
	Grant for Part-Time Students with Dependents	Provides up to \$1,920 per academic year to part-time low-income students with dependent children under 12 years of age.
	Grant for Students with Permanent Disabilities <sup>4</sup>	Provides up to \$2,000 per academic year of study to students who meet the definition of permanently disabled.
Canada Loan	Part-Time Canada Student Loan	Allows students to have up to \$10,000 principal and interest outstanding.
<b>Application for Scholarships</b>		
Ontario Scholarship	Ontario Graduate Scholarship	A merit-based scholarship, for Master's and PhD students, jointly funded by Ontario (2/3) and the institution offering the award (1/3).

1. The maximum total amount of Ontario student loans and grants is \$180 per week of study for a single student and \$450 per week of study for any other individual. A student's study period can range from a minimum of 12 weeks to a maximum of 52 weeks.
2. This grant combined the following six grants from 2016/17: 30% Off Ontario Tuition Grant; Ontario Access Grant; Ontario Access Grant for Crown Wards; Ontario Child Care Bursary; Ontario Distance Grant—Commuting and Travel; and Ontario Student Opportunity Grant.
3. This grant combined two grants from 2016/17: Grant for Students from Low-Income Families and Grant for Students from Middle-Income Families.
4. Same grant available to both part-time and full-time students.

## Appendix 2: Information Required for OSAP Application

Prepared by the Office of the Auditor General of Ontario

Information	To Determine	How Verified?	
		Automatically (A) or Manually (M)	
Basic personal data (e.g., name, sex, Social Insurance Number, date of birth)		A	Social Insurance Registry at Employment and Social Development Canada
Prior-year income of student, parents, and/or spouse	Available resources	A	Canada Revenue Agency
Estimate of income to be earned by student during study period	Available resources	A	Canada Revenue Agency (verified after study period ends)
Income from governments (e.g., EI, Ontario Works, Second Career) for the prior year	Available resources	AM	Canada Revenue Agency, Second Career Agreement, and the Ministry of Children, Community and Social Services
Parents' marital status and living arrangements	Dependency and financial need		Not verified
Canadian citizenship	Eligibility		Rely on existence of SIN
Permanent resident	Status in Canada	M	Record of Landing
Protected person	Status in Canada	M	Proof of a temporary SIN and other refugee or protected person documentation
Student's dependent children	Child Care Allowance	M	<ul style="list-style-type: none"> <li>• Child's birth certificate</li> <li>• For disabled child under 18, documentation from physician clearly stating disability</li> <li>• For disabled child 18 or older, proof that child was claimed as dependent for tax purposes</li> </ul>
Parents' dependent children	Financial contribution		Not verified
Foreign income	Financial resources	M	Document issued by foreign tax office, foreign employer or signed affidavit
Canadian non-taxable income	Financial resources	M	Documents issued by organization providing the prior year's non-taxable income
Ontario residency	Residency in Ontario		Not verified
Student disability	Living costs	M	Documentation from physician clearly stating disability

## Appendix 3: OSAP Grants and Loans for Last Six Fiscal Years (\$ 000)

Source of data: Ministry of Training, Colleges and Universities

	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
<b>Repayable Financial Aid</b>						
Ontario Student Loans	912,331	980,372	949,436	1,004,437	1,055,913	212,086
Ontario Medical Resident Loans	3,427	3,585	4,561	3,506	2,025	2,976
<b>Total Repayable Financial Aid</b>	<b>915,758</b>	<b>983,957</b>	<b>953,997</b>	<b>1,007,943</b>	<b>1,057,938</b>	<b>215,062</b>
<b>Non-repayable Financial Aid</b>						
<b>Grants</b>						
Ontario Student Grant	–	–	–	–	–	1,486,581
Ontario Student Operating Grant–Loan Forgiveness*	477,263	540,606	563,147	563,891	563,681	69,112
Ontario Tuition Grant*	317,011	311,922	318,998	330,014	331,847	–
Ontario Access Grant*	49,792	57,406	54,200	47,638	49,008	8,965
Canada Student Grant—for persons with permanent disabilities	9,207	9,384	10,517	9,484	9,162	8,490
Distance Grant*	4,941	5,752	5,568	5,379	3,700	134
Life after High School	–	–	–	–	–	507
Ontario Part-Time Grant	372	431	453	531	620	917
<b>Total Grants</b>	<b>858,586</b>	<b>925,501</b>	<b>952,883</b>	<b>956,937</b>	<b>960,014</b>	<b>1,574,706</b>
<b>Bursaries</b>						
Disabled Bursary	4,526	3,587	4,220	3,858	4,194	3,808
Child Care Bursary*	66	37	1,735	2,215	2,309	500
VRS Out of Country Bursary	1,102	1,183	1,382	1,563	1,388	1,044
<b>Total Bursaries</b>	<b>5,694</b>	<b>4,807</b>	<b>7,337</b>	<b>7,636</b>	<b>7,891</b>	<b>5,353</b>
<b>Scholarships</b>						
Ontario Graduate Scholarships	30,693	30,409	34,385	29,986	29,937	29,358
Aiming for the Top Scholarship	17,117	9,851	4,979	5,237	5,097	4,880
<b>Total Scholarships</b>	<b>47,810</b>	<b>40,260</b>	<b>39,364</b>	<b>35,223</b>	<b>35,034</b>	<b>34,238</b>
<b>Debt Reduction</b>						
Repayment Assistance Plan—Stage 1 (interest relief)	13,516	16,163	18,904	20,251	22,442	28,168
Repayment Assistance Plan—Stage 2 (principal relief)	6,246	7,944	10,217	12,486	14,977	18,462
Interest paid for students in study or 6-month grace period	18,566	19,372	20,465	6,359	254	213
<b>Total Debt Reduction</b>	<b>38,328</b>	<b>43,479</b>	<b>49,586</b>	<b>39,096</b>	<b>37,673</b>	<b>46,843</b>
<b>Other</b>						
Access Funding	–	–	–	–	–	970
Net Tuition Billing	–	–	–	–	6,100	–
Everest College Closure	–	–	7,571	–	623	59
Chiefs of Ontario	–	–	–	–	326	175
Indspire (awards for Indigenous students)	–	–	–	–	100	–
Higher Education Quality Council of Ontario	–	–	–	–	–	176
<b>Total Other</b>	<b>–</b>	<b>–</b>	<b>7,571</b>	<b>–</b>	<b>7,149</b>	<b>1,380</b>
<b>Total Non-repayable Financial Aid</b>	<b>950,418</b>	<b>1,014,047</b>	<b>1,056,741</b>	<b>1,038,892</b>	<b>1,047,761</b>	<b>1,662,519</b>

\* These grants were combined into the new Ontario Student Grant in 2017/18.

## Appendix 4: Audit Criteria

Prepared by the Office of the Auditor General of Ontario

1. **Eligibility:** Eligibility for financial assistance is assessed on a timely basis in accordance with Ministry of Training, Colleges and Universities (Ministry) policy and information in student applications is verified against supporting documentation.
2. **Change in Eligibility:** Eligible students are awarded the correct amount of grants and/or loans according to Ministry policy. Changes to student (borrower) circumstances, such as changes to income, course load, or family structure, are identified and reflected in student files and entitlements are assessed and adjusted based on these changes, as necessary. Overpayments are identified and collected on a timely basis.
3. **Governance/Oversight:** The roles and responsibilities of all parties involved in the administration and delivery of OSAP (Ministry of Training, Colleges and Universities, Financial Aid Offices in post-secondary institutions, the National Student Loan Service Centre, Ministry of Finance, and private collection agencies) are clearly established. All parties are carrying out their duties in accordance with program requirements, and timely corrective action is taken where required.
4. **Collection of Defaulted Accounts:** Collection efforts on defaulted loans are initiated on a timely basis and escalate in severity. All collection efforts are fully documented in applicable client files within Ministry systems. There is adequate oversight of collection activities to ensure that collection efforts are effective, timely and in compliance with Ministry policies and procedures.
5. **Data Security:** Appropriate procedures and controls are in place to safeguard the privacy of applicants' personal information.
6. **Performance Management:** Appropriate measures are in place to monitor program performance against established expectations and to assess the effectiveness of the program in achieving legislated and stated goals.